Opening remarks by Judith Karl, UNCDF Executive Secretary

On the occasion of the:

Forum on investment opportunities in LDCs:

High-level opening session entitled:

"FDI for sustainable development of the LDCs: Challenges and opportunities"

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Excellencies,

Distinguished panelists,

Colleagues,

Ladies and gentlemen,

Thank you for inviting me to be on this panel at this important event.

The Istanbul Programme of Action stresses that policies to attract and retain foreign direct investment are essential components of national development strategies.

With their fast-growing populations and rising middle classes, many LDCs are becoming important hubs for creating and selling goods and services. Many are generating rapid growth. As investors broaden their search for yield with slower-growing economies in developed and in some developing countries, many LDCs therefore present an attractive frontier for new investments.

Yet, LDCs face a number of challenges in attracting FDI and using it to transform their economies.

For starters, FDI inflows are concentrated in a handful of countries. FDI flows can also be notoriously volatile. FDI in many African LDCs has traditionally been directed largely towards natural-resource extraction or towards sectors such as urban real estate. This makes these economies open to the risks of a downward cycle in commodity prices, and means that beyond narrow corridors, the benefits of growth are not accruing across a territory.

This makes it all the more urgent that, first, LDCs have the right policies and incentive structures in place that can draw-in more FDI, and, second, that they are able to channel it towards productive sectors, creating linkages to the broader economy beyond extractives and capital cities.

In terms of policies and incentive structures, LDCs need to make better use of those financing tools which address market failures that impede greater FDI inflows. Perceptions of risk and concerns about management capacities and the ability to generate sufficient returns conspire to keep FDI away from many LDCs.

Yet, mechanisms do exist to share risks or otherwise improve the risk-return profile for investors. Insurance, investment guarantees, and new financial instruments can incentivize FDI to LDCs, including at the subnational level.

So too can public-private partnerships, where ODA de-risks and proves the viability of investing in local economies. This helps reveal markets and crowd in domestic resources, such as from banks and pension funds, as well as international private resources. This can be especially impactful when it comes to funding local authorities in LDCs to build prioritized infrastructure, and to expand the reach of financial service providers to unbanked and –under-banked populations.

On the second point – creating linkages with the wider economy – LDCs need to entice FDI into urban and even peri-urban and rural areas in order to transform their economies.

Right now, for example, FDI is closely linked to urban areas in most countries: they are viewed as being more effective locations for new businesses and having lower entry costs. The top 100 FDI destination cities accounted for over 41% of all FDI projects in the period 2003-2012. But this demands a complex combination of tangible and non-tangible services from the cities.

Bogota in Colombia and Chennai in India are excellent examples of how cities in Middle Income Countries can attract FDI by improving their services and overall image. There is every reason cities in LDCs - from Addis Ababa and Kigali to Dhaka and Kathmandu - can do the same, becoming centres of service and manufacturing excellence.

LDCs therefore need those partnerships which can build the capacities of local authorities so that they can attract, manage, allocate, and invest new resources into productive infrastructure, services, and enterprises.

A third point is this: Public-private partnerships can help LDCs and investors become aware of and take better advantage of the market opportunities that do exist.

The energy sector is a good case of a new frontier where investors could contribute to social development and generate returns. Nearly 1.3 billion people are without access to electricity and 2.7 billion people rely on the traditional use of biomass for cooking.

Innovations in decentralised energy present huge potential for low-income people to transition to clean energy. Yet, this market is characterised by low consumer purchasing power, weak supply chains, and often non-existent distribution systems.

It is during the incubation stage that start-up companies face the biggest financing constraints. Yet, large business opportunities exist in this frontier market.

To help low-income consumers to transition to cleaner energy, one UNCDF programme therefore provides risk capital and technical assistance to competitively selected financial service providers and energy enterprises. These businesses then develop scalable consumer financing models.

Such models can attract public and commercial finance to bring energy solutions to millions of people. These models can be and are being applied to other sectors too, providing fertile ground for FDI inflows to take them to scale.

Attracting FDI inflows is very competitive. LDCs are under pressure to make themselves stand-out while market failures also conspire to keep FDI away from local economies. With the right de-risking approaches, a commitment to channeling FDI flows to productive sectors, and smart public-private partnerships, it is possible to attract more FDI inflows, create positive linkages with the rest of the economy, and demonstrate the viability of investing in new markets.

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